REXFOR

# 1985-1986 Annual Report

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*Rexfor — the Société de récupération, d'exploitation et de développement forestiers du Québec — is a joint-stock company, and all of its stock is held by the Québec government. According to the Act under which it was constitued, its objects are:*

- *to salvage and exploit the forested areas of the public domain designated to it by the Lieutenant-Governor in Council and to carry out and direct the research required for these purposes;*
- *to revalorize by any appropriate sylvicultural measure, preserve and protect forest and land intended for forest use indicated by the Lieutenant-Governor in Council;*
- *to encourage the establishment and development of the forest industry and new employment.*

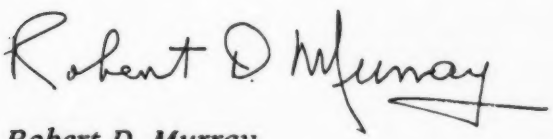
*The cover illustration symbolizes our trees and forests thriving in a healthy environment and the parallel growth of Rexfor.*

*Monsieur Albert Côté*
*Minister responsible for Forests*
*Hôtel du Gouvernement*

*Dear Mr. Minister:*

*In keeping with section 25 of the Act under which the Société de récupération, d'exploitation et de développement forestiers du Québec was constituted, I am pleased to submit to you our annual report for the fiscal year which ended March 31, 1986.*

*Very truly yours,*



*Robert D. Murray*
*Chairman of the Board*

*Québec, September 24th, 1986*

## BOARD OF DIRECTORS
*ELECTED APRIL 22, 1986*

***Robert D. Murray***
*Chairman of the Board*
*Chairman, Hydrogen Productivity Council of Canada*

***Magdi Sayegh***
*Vice-Chairman of the Board*
*President, Magdi Sayegh et associés inc.*

***Michel Duchesneau***
*Director*
*President and Chief Executive Officer, Rexfor*

***Thérèse Sicard***
*Director*
*Forest engineer*

***Marcel Baril***
*Director*
*President, Marcel Baril Ltée*

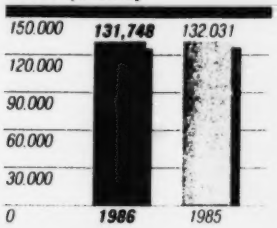
***Alain H. Belzile***
*Director*
*Attorney*

***Jacques R. Légaré****
*Director*
*President, Traitement sous pression L.D. Ltée*
** Elected July 4, 1986*

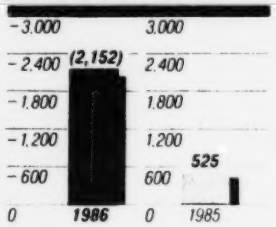
***André Poirier***
*Director*
*Vice-President, Groupe Purdel inc. and General Manager, Boulangerie La Miche inc.*

# HIGHLIGHTS

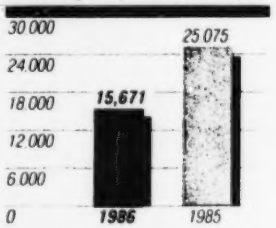
**Sales ($'000)**



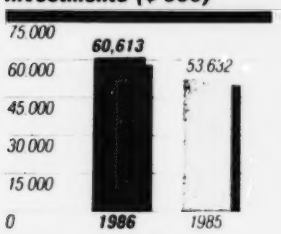

**Net Earnings (Net Loss) ($'000)**



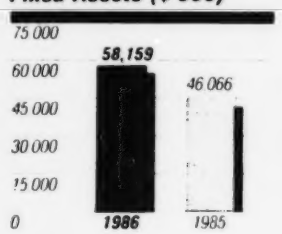

**Working Capital ($'000)**



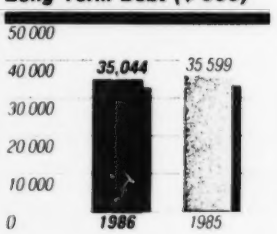

**Investments ($'000)**



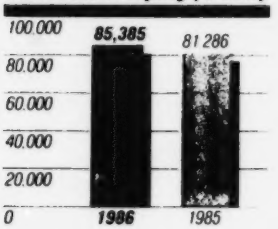

**Fixed Assets ($'000)**




**Long Term Debt ($'000)**




**Shareholder Equity ($'000)**




## REXFOR (CONSOLIDATED) ($'000)

| | 1986 | 1985 |
|---|---|---|
| **OPERATIONS** | | |
| Operating revenues | **131 748** | 132 031 |
| Investment income | **4 833** | 2 745 |
| Interest on long term debt | **2 593** | 2 789 |
| Amortization of fixed assets and other assets | **5 516** | 4 651 |
| Net earnings (net loss) | **(2 152)** | 525 |
| **ACQUISITION OF FIXED ASSETS** | **18 797** | 14 749 |
| BALANCE SHEET | | |
| Working capital | **15 671** | 25 075 |
| Investments | **60 613** | 53 632 |
| Fixed assets | **58 159** | 46 066 |
| Long term debt | **35 044** | 35 599 |
| Shareholder equity | **85 385** | 81 286 |

# MESSAGE FROM THE PRESIDENT

The income statement for 1985-1986 shows a net loss of $2 151 691 compared to the previous year's net earnings of $524 848. The changes in Rexfor's financial position, however, indicate that operations generated $1 642 660 in net funds — an increase of $10 613 678.

Despite the increase in sales resulting from the start-up of operations at Les Bois de l'Est du Québec (1985) inc. in Gaspésie, the overall sales for the year remained practically the same as the year before: $131 748 000. This is mostly due to the fact that the 1984-1985 sales figures included revenues from Énerbois inc. for a period of seven months; there were no revenues recorded for this year since the assets of this subsidiary were sold. The decrease in sales can also be attributed to the fact that logging operations were stopped in the Roberval division following expiry of the government mandates and the temporary closing down of operations at Scierie Béarn inc. and Les Produits forestiers Bellerive Ka'N'Enda inc. — due to a production surplus of chips in one case and plant alterations in the other.

Gross earnings were down — from $4 549 700 in 1984-1985 to $3 888 697 in 1985-1986. This was mostly due to the fact that operations were stopped at Énerbois inc. On the whole, the other subsidiaries and Rexfor's Domaine forestier showed the same gross profits they had the previous year. An increase in timber supply costs and a substantial decrease in chip revenues counterbalanced the impact of the steps taken to improve productivity and maintain operating expenses, despite the fact that lumber sales prices increased slightly in comparison with those of the previous year.

The 1985-1986 income statement does not reflect the major investments made in Scierie des Outardes enr., and the earnings that had been counted on did not materialize until the end of the year. Faced with disadvantageous rates of exchange on the overseas markets, Scierie des Outardes enr. was forced to replace its existing planer with a high-speed one and purchase a new lumber kiln to improve its chances on the North American markets. However, since the beginning of 1986, the operations earnings seem to indicate that 1986-1987 will be a better year. Also, the poor results shown by Les Produits forestiers Bellerive Ka'N'Enda inc. forced Rexfor to close down the plant temporarily at the beginning of June 1986. After the door skin market collapsed, a number of changes were made to this plant so that it could manufacture a veneer which has unfortunately fallen short of our expectations. The veneer logs were lacking in both quality and quantity and the cost of sawlogs was too steep.

Sales and administrative expenses went up 1.8 percent. This increase was essentially due to the opening of Les Bois de l'Est du Québec (1985) inc. Financial expenses increased by 2.3 percent, from $4 623 458 to $4 731 100, because of the increase in short term loans contracted by Rexfor and its subsidiaries.

The investment income figure for 1985-1986 was $4 833 299, compared to $2 745 231 the previous year. Indeed, despite a significant drop in income from interest on deposits, loans and advances used for investment purposes, the dividends from one limited partnership and for a number of satellite companies almost doubled. The businesses in question were F.F. Soucy inc. et Associés, Papier Cascades

(Cabano) inc., Panval inc. and Forpan inc. Most of these firms had some difficulties but with the support of Rexfor managed to get over their growing pains and the last recession and go on to thrive.

Miscellaneous revenues went up from $1 095 964 to $1 209 493. This income is mainly composed of rental income, profits from sale of fixed assets, grants and interest on outstanding accounts.

An amount of $4 202 406 was recorded as income tax revenue. It was mostly made up of income tax credits related to capitalized investments.

As of March 31, 1986, Rexfor's total assets were $171 million, compared to $169 million for the same period in 1985.

Shareholder equity was $85.4 million, compared to $81.3 million in 1985.

Investment activities required $22 408 614 in funds, as opposed to $19 081 381 the year before. Funding activities generated $27 696 462 in 1986, compared to $9 864 238 in 1985.

## INVESTMENTS

This year, Rexfor increased its involvement in the particle board sector by buying 25.07 percent of the stock in Forpan inc., formerly Forex-Leroy inc., held by Groupe Forex inc. At the same time, Rexfor invested $2.5 million, in the form of debentures and stock, to enable Forpan inc. to build up its working capital.

Rexfor also invested $5 million, an amount representing 50 percent of the common stock, in Cascades (Port-Cartier) inc. Over the next few years, this company will be altering its plant, which used to belong to ITT Canada Ltd., in Port-Cartier. This project consists in converting it into a CTMP (chemicothermomechanical pulp) plant; the total cost is estimated at $102 million. In addition to its participation in the common stock, Rexfor will be investing $17 million in preferred stock and will provide this plant with its wood supplies.

In Témiscamingue, Scierie Béarn inc., a wholly-owned subsidiary of Rexfor, invested $725 000 for preferred stock in Temfor inc., to enable the latter to modernize its mill. During the year, Rexfor sold its stock in Nouveler inc., a company which had been formed to develop new energy forms, to Hydro-Québec. The idea of this transaction was to rationalize operations at Nouveler inc. and let Hydro-Québec give Nouveler inc. a new boost better suited to its needs.

In May 1986, Rexfor signed an agreement with a group of shareholders. Among them were the West German Kunz group, the Fonds de solidarité des travailleurs du Québec (F.T.Q.), a group of businesspersons from Mont-Laurier and Les Industries de la Rive Sud Ltée of Sainte-Croix. The object of this agreement was to set up an MDF (medium density fiberboard) plant in Mont-Laurier, at a cost of $39 million. This investment will provide a region suffering from heavy unemployment with 82 new jobs. Rexfor will also be building a thermal energy plant which will meet the energy requirements of the MDF plant and will provide the latter with its timber supplies through Les Produits forestiers Bellerive Ka'N'Enda inc.

## GOVERNMENT MANDATES

Over the past year, Rexfor continued to implement the program, entrusted to it by the government in 1984, involving the reorganization of the lumber industry in the north of Gaspésie and in the Matane-Matapédia region. Work was completed on the construction of the resaw and planing mill in Matane, modernization of the Marsoui mill and reconstruction of the Matabois one — part of it burned down last year. Les Bois de l'Est du Québec (1985) inc. is now fully operational with the exception of the Cap-Chat mill which has not been modernized yet. The company is only operating at 60 percent capacity, however, because of the problems it is having selling its chips on the usual markets. Over 30 000 tonnes are even to be shipped overseas this year. Les Bois de l'Est du Québec (1985) inc. provides about 600 direct jobs in the mill and in logging operations and there would be 50 percent more if it was operating at full capacity.

We cannot sufficiently stress the necessity of the establishment of a paper mill in Matane. It would provide a vital outlet for chips and pulpwood — not only from Les Bois de l'Est du Québec (1985) inc. but also from the various other sawmills and private woodlots in that area. Rexfor worked hard to draw investors, and was rewarded for its efforts. Although negotiations are presently under way with the various governments

concerned, the federal authorities do not seem to be in much of a hurry to get the project off the ground.

## PROSPECTS

The economic outlook for 1986-1987 is good, given the expected drop in interest rates which will favour the residential construction market. The demand for Canadian lumber should continue to grow accordingly, provided the U.S. does not impose countervailing duties. What is more, the overseas forecasts are promising, thanks to the realignment of foreign currency in relation to the Canadian dollar.

The demand for reconstituted wood panel board looks like it will grow in keeping with the performance of the furniture and construction industries.

Finally, as far as the pulp and paper industry is concerned, we can expect to see little change in conditions in the newsprint sector and a sizable improvement in the sales price of wood pulp.

Over the next year, Rexfor is planning to participate in the realization of major projects — at the resource level particularly where it could play a key role in the new forestry plan ("nouveau régime forestier") being formulated by the Québec government. At the mill work level, special attention will be given to further processing of lumber products, especially through the use of techniques which make it possible to increase the added value of the various products.

Rexfor will continue to work towards the establishment of a paper mill in Matane. It will also participate in the installation of a third newsprint machine in Rivière-du-Loup.

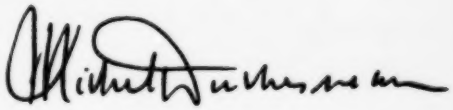
The year 1986-1987 is likely to be a decisive one for Rexfor as far as the definition of future orientations is concerned. This is all part of the reorientation process instigated by the government and designed to make more room for private enterprise. What with the scarcity of public finances, the time has certainly come to reconsider government intervention in general and its financial intervention in particular. Such a step on the part of the government is healthy and positive to the extent that the question is looked at from every angle.

## A NEW BOARD OF DIRECTORS

Since the directors' terms were up, the Québec Minister of Finance, Rexfor's shareholder, named new members to the Board. Appointed on April 22, 1986, then, were Thérèse Sicard, Marcel Baril, Alain H. Belzile, Robert D. Murray, Michel Philippon, André Poirier and Magdi Sayegh. They succeeded Hugues Belzile, Paul A. Bienvenu, Jean-Louis De Carufel, Gaston Malette, Pierre M. Vallée, Jean-Louis Verrette and Marie-Paule Allaire, who resigned on July 1, 1985 to take up a new position in Senegal with CIDA.

I would like to thank each and every one of them for the quality of the advice and recommendations they so generously gave throughout their stay on the Board.

In concluding, I would like to thank my management colleagues and all of Rexfor's employees for their hard work and dedication. I know that I can once again count on their contribution towards our improved performance in 1986-1987.



**Michel Duchesneau**
June 5, 1986

# ECONOMIC DEVELOPMENT: REXFOR'S ROLE

## REXFOR'S CONTRIBUTION TO ECONOMIC DEVELOPMENT

*Economic development brings with it appreciable changes in the behaviour of society. It is reflected by constant economic and social progress. In the forestry sector, the tangible signs of this progress are mostly to be seen in the economic spin-off arising from the development, harvesting and processing of the resource into various products sold on markets all over the world.*

*At many points in time and in different ways, Rexfor has helped and continues to help maintain this progress in many Québec regions. Development of the timber resource being its specialty, Rexfor concerns itself with its protection, access to it, improvement of its potential and of salvaging as well as with harvesting, processing and marketing its products.*

*Rexfor's involvement in processing is relatively recent (1973). Created in 1961, it was initially a board with the mandate to recover the trees in those areas to be flooded in connection with the hydroelectric projects on the Manicouagan and Outardes rivers. Then when it became a government corporation in 1970, it was charged with the task of implementing the biggest sylvicultural program Québec had ever had by 1971. Since then, it has intervened on countless occasions — lending its support to private businesses wanting to improve their profitability or set up new plants, employing personnel, and using natural resources which had been left to their own devices.*

Jean-Marie Poulin

In creating Rexfor, the Québec government acquired an instrument for intervening in the forestry sector — a sector of key importance for the whole economy. Rexfor has been altered considerably over the years, as much as a result of changing circumstances and needs as of political and economic demands, and its name itself reflects these gradual changes, expressing the specific responsibilities it has taken on at certain times in order to meet special needs. Unlike Québec's other government corporations, whose roles have remained the same, Rexfor as we know it today can be explained and understood in terms of its evolution. It is an instrument which is constantly being shaped to meet the requirements of its shareholder the government and those of society by actively contributing to the progress of the forestry sector.

## TANGIBLE EVIDENCE OF ITS WORK

Since its establishment, Rexfor has consistently acted as a government intermediary. When asked to do so by its shareholder, it has assisted private processing firms who wanted to modernize their installations or who were experiencing financial problems.

Take, for instance, the way it helped Tembec inc. in Témiscamingue, and Scierie Taschereau, Scierie Béarn inc. and Samoco, located respectively in Abitibi, Témiscamingue and the Saguenay. It also helped a number of operations in the Gaspésie area, and just recently created Les Bois de l'Est du Québec (1985) inc. in connection with the program to reorganize the lumber industry in the north of Gaspésie and in the Matane-Matapédia region. Also to be added to the list is its purchase of stock in the Forpan inc. particle board plant in Val-d'Or this year, designed to give a boost to this firm.

Rexfor's help was also needed to promote and establish new plants. Thanks to this, use was made of human and natural resources which otherwise would not have been productive — or only very little. Rexfor also facilitated the integration of foreign corporations in a number of our regions and promoted the creation of innovative Québec businesses. A good example of this is its financial participation in the paper mill F.F. Soucy inc. et Associés in Rivière-du-Loup, the Papier Cascades (Cabano) inc. board plant, the sawmill Scierie des Outardes enr. in Baie-Comeau, the Panval inc. particle board and furniture plant in Sayabec and the sawmill Scierie Grand-Remous enr. in Outaouais.

Yves Barrette and Bertrand Racine

Roberte Lachance and André Moffet

*Rexfor's contribution to economic development is reflected by the positive spin-off in the communities where its businesses are located. This past year, taking into account its own activities and those of its subsidiaries only, Rexfor's consolidated operating and capital expenditures were $140 million. Most of this amount was used for local purchase of timber, parts, fuel and services from various contractors, much of it covered salaries, wages and fringe benefits for its 2 300-odd employees and the remainder was divided up between the taxes, charges and permits required by the various governments and miscellaneous expenses related to services provided by financial institutions. This spin-off figure would more than double if we included affiliated companies.*

## *CURRENT PROJECTS*

*With a view to improving our forests, Rexfor has submitted a number of proposals to the ministère de l'Énergie et des Ressources regarding, among many other things, nursery production of seedlings, reforestation of poorly regenerated areas, implementation of new sylvicultural techniques, integrated logging operations in areas with mixed and hardwood stands, construction of logging roads providing access to forested areas, and experimental use of machinery for sylvicultural pratices.*

*With respect to processing of the resource, the government has given Rexfor the mandate to help the local community find investors interested in reopening the ITT mill in Port-Cartier. Rexfor has joined forces with Cascades inc. and their plan is to convert the existing plant into a CTMP (chemicothermomechanical pulp) plant with a 160 000 tonne capacity. This project will require an outlay of over $100 million, provide over 150 direct plant jobs and entail the payment of an annual $7 million in salaries. The construction work related to conversion and reopening of the plant will be initiated in 1986 and the opening is slated for spring 1988. Rexfor alone will be responsible for providing this complex with its wood supplies.*

**Maurice Moore**

*It was with a view to processing and improved utilization of the timber resource that Rexfor, the Groupe Kunz de Panval inc., the Fonds de solidarité des travailleurs du Québec (F.T.Q.), Les Industries de la Rive Sud and a group of Mont-Laurier investors joined forces in a project to build an MDF (medium density fiberboard) plant in Mont-Laurier. This project will require some $45 million in investments, including the thermal energy plant Rexfor plans to build which will create 90 direct jobs and a number of others which will be required to supply the plant with wood fibre. The construction work will begin in June 1986 and the plant is supposed to go into operation in fall 1987. A Rexfor subsidiary, Les Produits forestiers Bellerive Ka'N'Enda inc., will be responsible for providing the plant with its timber supplies.*

*A combination of different factors has reinvolved Rexfor in the paper mill project for Matane, in association with Norwegian investors, and negotiations have been going on with the governments for the past eight months now. This project would call for an outlay of over $325 million and create approximately 300 mill jobs. This paper mill will be able to put out an annual 180 000 tonnes of Type A supercalendered paper.*

*This superior quality paper has never been produced in Canada before, despite the constantly growing demand in the U.S. which appears to be mostly met by Scandinavian producers. It is very difficult, however, to know exactly what to expect of this project given the time negotiations are taking with the federal government.*

*Without government involvement in some shape or form, the projects decribed above could not be realized – especially those involving supplies ensured by Rexfor.*

**André Lamothe and Gérald Gagné**

**Francine Couture, Jean-Marie Poulin and Rosaire Martel**

## OUTLOOK

*Rexfor was created to complete — not replace — the role played by private enterprise. This means that under certain circumstances, with the authorization of the government, it takes risks that private businesses cannot or do not wish to take alone. Sometimes too it has to accept the fact that it is given certain mandates for purely socioeconomic reasons. Rexfor is also called upon to promote technological innovations. What is more, it may make investments which are poor at first but profitable in the medium or long term.*

*Rexfor should be profitable. Like a private firm, it has to generate funds so that it can stay in business. Unlike a private company, however, generating funds and profitability are not only its end, but also a means of pursuing its forestry activities. It is also true, however, that in order to be profitable a government corporation such as Rexfor must diversify. Its activities should not involve businesses in trouble alone. Also, although it is not necessary for Rexfor to indefinitely own all the businesses in which it has holdings, we have to accept the fact that it must own a few in order to keep a financial balance and maintain its expertise in the forestry sector. Rexfor could of course play a different role, but in that case the rules of the game would have to be different as well.*

*When all is said and done, the prosperity of the forestry sector will remain a concern of society for quite a while longer, calling upon resources of all kinds, public resources included, and Rexfor in its capacity as an instrument of economic development is one of these resources. Private entrepreneurship, however, is hardly lacking in strength and in the present context it is obvious that it will be required to play a leading role and take up this challenge. An organization such as Rexfor can nevertheless contribute in different ways to the development of the forestry sector and continue to serve the public good.*

*Louise Sabourin and Maurice Moore*

## AUDIT COMMITTEE REPORT

October 6, 1986

Robert D. Murray
Chairman of the Board of Rexfor,
1195 rue de Lavigerie,
Ste-Foy
G1V 4N3

Dear Mr. Chairman:

In my capacity as a new member of Rexfor's board of directors and as Chairman of the audit committee, I am pleased to inform you of the progress of my committee's work.

My colleagues, whom I would like to thank for their cooperation and sound advice, and myself, have recommended that the board of directors adopt the financial statements below.

We had to step up our sessions and meetings so that we could rapidly familiarize ourselves with the structure of the company. We are greatly indebted to many individuals, including the Auditor General, who helped make it possible for us to grasp the essentials in such a short time span.

The audit committee will continue to do its very best. For the next fiscal year, it has elaborated, with the approval of the board of directors, a number of auditing tools which are bound to increase our efficiency.

You may count on our unflagging support.

Yours truly,

ALAIN H. BELZILE,
Chairman, audit committee

## REXFOR CONSOLIDATED FINANCIAL STATEMENTS
### FOR YEAR ENDED MARCH 31, 1986

### AUDITOR'S REPORT

I have examined the consolidated balance sheet of La Société de récupération, d'exploitation et de développement forestiers du Québec — REXFOR — as at March 31, 1986 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhéal Chatelain, F.C.A.

Auditor General of Quebec

Quebec, June 5, 1986

**REXFOR**
**(R.S.Q., Chapter S-12)**
# CONSOLIDATED BALANCE SHEET
**AS AT MARCH 31, 1986**

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| CURRENT | | |
| Dividend receivable | **278 000** | — |
| Accounts receivable and accrued interest | **18 925 414** | 19 605 210 |
| Grants and tax credits receivable | **3 085 148** | 6 380 953 |
| Inventories (Notes 4 and 15) | **25 241 493** | 25 844 245 |
| Prepaid expenses | **453 972** | 612 567 |
| Subscribed share capital receivable | **—** | 12 500 000 |
| Payments receivable on investments (Note 5) | **1 189 897** | 1 175 913 |
| | **49 173 924** | 66 118 888 |
| GRANTS RECEIVABLE | **—** | 45 390 |
| INVESTMENTS (Note 5) | **60 612 738** | 53 631 524 |
| FIXED ASSETS (Note 6) | **58 158 642** | 46 066 635 |
| OTHER ASSETS (Note 7) | **3 018 479** | 3 659 928 |
| | **170 963 783** | 169 522 365 |

**For the Board of Directors,**

**(Signed) ROBERT D. MURRAY**

**(Signed) MICHEL DUCHESNEAU**

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| **LIABILITIES** | | |
| CURRENT | | |
| Bank overdraft | 373 782 | 1 604 739 |
| Bank advances (Note 8) | 19 300 672 | 25 000 223 |
| Accounts payable and accrued expenses | 12 268 507 | 10 946 262 |
| Deferred revenue | — | 130 850 |
| Deferred investment tax credit | — | 1 507 956 |
| Payments on long term debt (Note 9) | 1 560 036 | 1 854 171 |
| | 33 502 997 | 41 044 201 |
| LONG TERM DEBT (Note 9) | 35 044 431 | 35 599 415 |
| | 68 547 428 | 76 643 616 |
| DEFERRED GOVERNMENT ASSISTANCE | 14 823 464 | 10 545 362 |
| MINORITY INTERESTS | 2 208 178 | 1 046 983 |
| **SHAREHOLDER EQUITY** | | |
| SHARE CAPITAL (Note 10) | | |
| Authorized: 1 250 000 shares - par value of $100 each | | |
| Subscribed: | | |
| Issued and paid: 780 000 shares | 78 000 000 | 59 250 000 |
| Receivable | — | 12 500 000 |
| | 78 000 000 | 71 750 000 |
| CONTRIBUTED SURPLUS (Note 11) | 4 926 567 | 4 926 567 |
| RETAINED EARNINGS | 2 458 146 | 4 609 837 |
| | 85 384 713 | 81 286 404 |
| | 170 963 783 | 169 522 365 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 16) | | |

## REXFOR CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR YEAR ENDED MARCH 31, 1986

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| BALANCE AT THE BEGINNING | | |
| As previously established | 5 062 407 | 4 537 559 |
| Prior year adjustment: Elimination of an inter-company profit included in inventories (Note 15) | (452 570) | (452 570) |
| Restated balance | 4 609 837 | 4 084 989 |
| (Net loss) Net earnings | (2 151 691) | 524 848 |
| BALANCE AT THE END | 2 458 146 | 4 609 837 |

## REXFOR CONSOLIDATED STATEMENT OF INCOME
FOR YEAR ENDED MARCH 31, 1986

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| OPERATING REVENUES | 131 748 130 | 132 030 715 |
| OPERATING COSTS | 127 859 433 | 127 481 015 |
| GROSS EARNINGS | 3 888 697 | 4 549 700 |
| Sales and administrative expenses | 10 438 692 | 10 256 203 |
| Financial expenses (Note 12) | 4 731 100 | 4 623 458 |
| Investment income (Note 13) | (4 833 299) | (2 745 231) |
| Other income | (1 209 493) | (1 095 964) |
| | 9 127 000 | 11 038 466 |
| LOSS BEFORE INCOME TAX | (5 238 303) | (6 488 766) |
| Tax credits (Note 14) | 4 202 406 | — |
| | (1 035 897) | (6 488 766) |
| Minority interests | (1 115 794) | (8 031) |
| NET OPERATING LOSS | (2 151 691) | (6 496 797) |
| UNUSUAL ITEM | | |
| Profit on sale of all the fixed assets of a subsidiary | — | 3 238 070 |
| | (2 151 691) | (3 258 727) |
| EXTRAORDINARY ITEM | | |
| Share of profit on sale of intangible assets of satellite company | — | 3 783 575 |
| (NET LOSS) NET EARNINGS | (2 151 691) | 524 84[illegible] |

# REXFOR CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR YEAR ENDED MARCH 31, 1986

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| **OPERATIONS** | | |
| Loss not including extraordinary item | (2 151 691) | (3 258 727) |
| Items not affecting liquidity | | |
| Depreciation | 4 584 348 | 4 334 743 |
| Loss (profit) on sale of assets | 84 973 | (3 378 645) |
| Interest in earnings of satellite companies | (912 707) | 696 301 |
| Minority interests | 1 115 794 | 10 531 |
| Other items | (601 868) | (23 761) |
| Variation of current assets and liabilities related to operations not included in liquidity | (476 189) | (7 351 460) |
| Funds generated by (used in) operations | 1 642 660 | (8 971 018) |
| **FINANCING** | | |
| Stock issue | 18 750 000 | 500 000 |
| Addition to long term debt | 9 961 029 | 7 637 322 |
| Government assistance received | 9 731 416 | 1 995 557 |
| Minority interests | 45 400 | 1 000 000 |
| | 38 487 845 | 11 132 879 |
| Reimbursement of long term debt | (10 791 383) | (1 268 641) |
| Funds generated by financing activities | 27 696 462 | 9 864 238 |
| **INVESTMENT** | | |
| Additions: | | |
| Fixed assets | (18 797 305) | (14 748 845) |
| Investments | (15 460 243) | (14 232 638) |
| Other assets | (1 081 560) | (1 768 238) |
| | (35 339 108) | (30 749 721) |
| Proceeds from sales: | | |
| Fixed assets | 1 301 148 | 6 018 935 |
| Investments | 10 581 792 | 3 535 830 |
| Other assets | 1 047 554 | 2 113 575 |
| | 12 930 494 | 11 668 340 |
| Funds used in investment activities | (22 408 614) | (19 081 381) |
| CHANGES IN LIQUIDITY DURING THE YEAR | 6 930 508 | (18 188 161) |
| LIQUIDITY DEFICIT AT BEGINNING OF YEAR | (26 604 962) | (8 416 801) |
| LIQUIDITY DEFICIT AT END OF YEAR | (19 674 454) | (26 604 962) |

REXFOR's liquidity deficit represents bank overdraft and advances.

# REXFOR
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## FOR YEAR ENDED MARCH 31, 1986

## 1. INCORPORATION AND OBJECTIVES

The Société de récupération, d'exploitation et de développement forestiers du Québec — REXFOR — is a joint-stock company whose shares are held by the government of Québec. Under its statutory charter, it has the following objectives:

- to salvage and exploit the forested areas of the public domain designated to it by the Lieutenant-Governor in Council and to carry out and direct the research required for these purposes;
- to revalorize by any appropriate sylvicultural measure, preserve and protect forest and land intended for forest use indicated by the Lieutenant-Governor in Council;
- to encourage the establishment and development of the forest industry and new employment.

## 2. ACCOUNTING POLICIES

The consolidated financial statements of REXFOR, based on the judgment and estimates of its management, were prepared in accordance with generally accepted accounting principles in the framework of accounting policies which may be summarized as follows:

### Consolidation Principles

The consolidated financial statements of REXFOR include the accounts of REXFOR, those of its subsidiaries and its relative share in the assets, liabilities, revenues and expenses of joint ventures.

**Wholly-Owned Subsidiaries:**

Scierie Béarn inc. and its subsidiary
Proforêt inc. and its subsidiary
Les Produits forestiers Bellerive Ka'N'Enda inc.
Énerbois inc.
Gestion 1195 inc.
Les Entreprises Matabois Ltée
2168-3768 Québec inc.

**Other Subsidiary:**

Lignarex inc. (77% interest)

**Joint Ventures:**

Scierie des Outardes enr.
Scierie Grand Remous enr.

### Inventories

Timber, supplies and fuel inventories are valued at the lowest cost, using the first-in, first-out or average cost method, and the net realizable value or replacement cost.

The cost includes raw materials, direct labour and general production costs deduction made if necessary of the net realizable value of by-products where applicable.

### Investments

REXFOR enters its investments at the consolidated value when its participation in securities carrying a right to vote from the issuing company is at least 20% and not over 50%, inasmuch as it has an appreciable influence over this satellite company with respect to its financial and administrative decisions.

Participation in a limited company or satellite companies is accounted for using the equity method.

Other investments are entered at cost, less any permanent write-downs. The provision for eventual loss on loans and advances is established by a specific case analysis.

### Fixed Assets

Fixed assets are accounted for at cost. The cost of fixed assets built by REXFOR for its own use includes materials, direct labour, part of the general expenses and the financial expenses incurred during construction.

Depreciation is computed using the straight-line method. The following annual rates, which vary with the life of the items, have been used. During the temporary shutdown of forest plants or divisions, assets directly related to production are not depreciated.

| | Rates |
|---|---|
| Land development | from 2.50% to 10.00% |
| *Logging Roads | from 10.00% to 33.33% |
| Forest buildings and camps | from 2.50% to 33.33% |
| Machinery and equipment | from 6.67% to 20.00% |
| Computer equipment | 20.00% |
| Rolling stock | from 10.00% to 33.33 |

*The logging roads of some of the subsidiaries are depreciated according to the proportion of felled timber over the total volume of tim

### Other Assets

Depreciation of start-up costs, preliminary expenses and development of computer software is calculated using the straight-line method and a rate of 20%. Preliminary expenses relating to the study of various projects are deferred and will either be charged to operations or capitalized, depending on the results of the studies.

Excess value of shares over the appraised value of acquired net assets is amortized to the results over a period of 20 years.

Land, buildings, machinery and equipment held for resale are evaluated at their lowest depreciable cost or the net realizable value.

### Deferred Government Assistance

Grants for the acquisition of fixed assets and the creation of jobs are entered under deferred government assistance and presented as liabilities. Grants for the acquisition of fixed assets are transferred to income using the same method and depreciation rate as for subsidized fixed assets. Grants related to the creation of jobs are transferred to income as the conditions for these grants are carried out.

### Conversion into Foreign Currency

Assets and liabilities in foreign currency are converted into Canadian dollars using the rates in effect as of the balance sheet date. Unrealized gains or losses on foreign exchanges are charged to operations for the year.

## 3. PROPORTIONATE CONSOLIDATION OF JOINT VENTURES

As of March 31, 1986, the share in each of the assets, liabilities, revenues and expenses of the joint ventures Scierie des Outardes enr. and Scierie Grand Remous enr., calculated using the proportionate consolidation method, is as follows:

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| Assets | 27 668 934 | 26 462 224 |
| Liabilities | 25 625 021 | 23 478 830 |
| Revenues | 36 045 782 | 34 256 526 |
| Expenses | 38 485 262 | 36 807 214 |

## 4. INVENTORIES

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| Logs | 16 811 737 | 14 103 573 |
| Lumber | 4 841 819 | 5 590 077 |
| Other wood | 1 689 907 | 4 672 705 |
| Supplies and fuel | 1 898 030 | 1 477 890 |
| | 25 241 493 | 25 844 245 |

## 5. INVESTMENTS

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| • At consolidated value: | | |
| Investment in a joint venture | 3 000 000 | 3 000 000 |
| Share in retained earnings since date of purchase | 1 643 838 | 1 153 802 |
| | 4 643 838 | 4 153 802 |
| Investment in satellite companies | 35 597 113 | 24 544 271 |
| Share in retained earnings since date of purchase | 4 079 572 | 3 166 864 |
| | 39 676 685 | 27 711 135 |
| | 44 320 523 | 31 864 937 |

## 5. INVESTMENTS (cont'd)

| | 1986 | 1985 |
|---|---|---|
| • At cost | $ | $ |
| Common shares (a) | 5 291 938 | 6 355 203 |
| Preferred shares | 725 000 | – |
| Mortgages | 199 519 | 211 329 |
| Bonds and debentures | 7 266 605 | 7 052 455 |
| Loans and advances | | |
| bearing interest | 412 329 | 540 987 |
| not bearing interest | 1 667 079 | 6 862 884 |
| Term deposits (b) | 2 000 000 | 2 000 000 |
| Other items | 39 586 | 39 586 |
| | 17 602 056 | 23 062 444 |
| Payments receivable next year | 1 189 897 | 1 175 913 |
| | 16 412 159 | 21 886 531 |
| Provision for contingent loss on loans and advances | 119 944 | 119 944 |
| | 16 292 215 | 21 766 587 |
| | 60 612 738 | 53 631 524 |

(a) The amount of $5 291 938 for March 31, 1986 and $4 930 203 for March 31, 1985 represent shares on the stock market whose market value on March 31, 1986 was $6 127 941 ($4 775 076 on March 31, 1985). According to the unaudited financial statements obtained, the book value of this stock on March 31, 1986 was $8 876 939 ($9 000 691 on March 31, 1985).

(b) Term deposits of a subsidiary given as a guarantee for irrevocable letters of bank credit expiring in December 1989.

## 6. FIXED ASSETS

| | 1986 | | | 1985 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net | Net |
| | $ | $ | $ | $ |
| Land and development | 2 668 596 | 187 670 | 2 480 926 | 1 788 785 |
| Logging roads | 7 593 027 | 1 721 838 | 5 871 189 | 5 328 256 |
| Logging buildings and camps | 17 610 210 | 4 613 248 | 12 996 962 | 10 630 491 |
| Machinery and equipment | 43 375 795 | 12 219 420 | 31 156 375 | 17 212 725 |
| Computer equipment | 1 015 369 | 402 115 | 613 254 | 619 618 |
| Rolling stock | 5 940 582 | 3 760 587 | 2 179 995 | 1 972 218 |
| Construction in progress | 2 316 016 | — | 2 316 016 | 8 223 769 |
| | 80 519 595 | 22 904 878 | 57 614 717 | 45 775 862 |
| Fixed assets held under capital leases: | | | | |
| Computer equipment | 100 902 | 84 084 | 16 818 | 30 272 |
| Rolling stock | 597 307 | 70 200 | 527 107 | 260 501 |
| | 81 217 804 | 23 059 162 | 58 158 642 | 46 066 635 |

The fixed asset depreciation for the year is $4 433 318 ($4 235 665 in 1984-1985) once depreciation of deferred government assistance — $557 868 ($201 825 in 1984-1985) — is deducted.

### Grants for Acquisition of Fixed Assets

Grants for the acquisition of fixed assets are now entered under deferred government assistance, as liabilities. These grants used to be deducted from the cost of fixed assets and the depreciation calculated on the net amount. This change in presentation has absolutely no effect on the annual consolidated statement of income.

## 7. OTHER ASSETS

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| Start-up and preliminary expenses — at depreciated cost | 434 574 | 694 622 |
| Software development expenses — at depreciated cost | 608 234 | 755 354 |
| Cost of studies related to investment projects | 694 233 | 783 414 |
| Excess of the purchase price of stock over the appraised value of acquired net assets — at depreciated cost | 414 078 | 437 406 |
| Land, buildings, machinery and equipment to be resold | 231 884 | 284 375 |
| Deposit — Commission de la santé et de la sécurité du travail | 510 000 | 529 139 |
| Other | 125 476 | 175 618 |
| | 3 018 479 | 3 659 928 |

## 8. BANK ADVANCES

Accounts receivable and inventories are given as guarantees for certain bank advances.

## 9. LONG TERM DEBT

| | 1986 | 1985 |
|---|---|---|
| **Rexfor** | $ | $ |
| Advances from Québec government: | | |
| • Not bearing interest, for financing agreement signed August 17, 1971 with ITT Canada Ltd., repayable between 1997 and 2000: Balance of advances of $13 680 000, at present value calculated at 11.5% per year | 3 320 433 | 2 977 967 |
| • Bearing interest, at prime bank rate plus ½%, repayable in quarterly instalments of $43 750 as of March 31, 1987 | 1 750 000 | — |
| • Bearing interest, capitalized at prime bank rate plus 1%, no set repayment arrangements | 2 611 832 | — |
| • Not bearing interest, concerns Nouveler inc. | — | 6 500 000 |
| **Scierie Béarn inc.** | | |
| • Loan, prime bank rate plus ½%, repayable in annual instalments varying between $100 000 and $220 000, due in 1994 | 1 000 000 | 1 100 000 |
| • Loan, variable interest rate, repayable in two $1 500 000 instalments in 1990 and 1995 | 3 000 000 | 3 000 000 |
| **Gestion 1195 inc.** | | |
| • Mortgages, 11¾%, repayable in monthly $22 359 instalments which include principal and interest, due September 1, 1990 | 2 086 303 | 2 113 533 |
| **Énerbois inc.** | | |
| • Bank acceptance, 12.05%, repayable up to November 2, 1986 in minimum annual instalments of $300 000, calculated on basis of 10 year depreciation | 1 100 000 | 1 400 000 |
| **Les Produits forestiers Bellerive Ka'N'Enda inc.** | | |
| • Loan, variable interest rate, repayable in monthly $18 518 instalments, guaranteed by first mortgage bond, due in 1993 | 1 648 148 | 1 870 370 |
| • Loan, variable interest rate, repayable in monthly $5 618 payments as of April 1, 1986, guaranteed by first mortgage bond, due in 1993 | 500 000 | 500 000 |
| **Scierie des Outardes enr.** | | |
| • Bank loans, variable interest rate, repayable in $92 340 monthly instalments as of April 1987, due in 1993 | 7 200 000 | 7 200 000 |
| • Special revolving credit, prime bank rate, convertible in September 1987 into term loan repayable in $12 000 monthly instalments, due in 1992 | 720 000 | — |

## 9. LONG TERM DEBT (cont'd)

| | 1986 | 1985 |
|---|---|---|
| **Scierie Grand Remous enr.** | $ | $ |
| • Loan, variable interest rate, repayable in quarterly $150 000 instalments as of May 1987, due in 1992 | 3 300 000 | 3 300 000 |
| **Proforêt inc.** | | |
| • Loan, prime bank rate, repayable in semi-annual $300 000 instalments as of September 1989, due in 1999 | 6 000 000 | — |
| • Other | — | 4 800 000 |
| Other — under $500 000 | 2 367 751 | 2 691 716 |
| | 36 604 467 | 37 453 586 |
| Payments (instalments) due next year | 1 560 036 | 1 854 171 |
| | 35 044 431 | 35 599 415 |

Certain assets are given in guarantee of bank debts.
Principal repayments for the next five years break down as follows:
1986-1987 — $1 560 036, 1987-1988 — $2 919 215, 1988-1989 — $3 715 239, 1989-1990 — $3 611 346, 1990-1991 — $4 869 829.

## 10. SHARE CAPITAL

During the year, REXFOR received $18 750 000 in payment for 187 500 shares, bringing its issued and paid share capital to $78 000 000. The balance of the authorized unsubscribed share capital — $47 000 000 — will be paid in one or more instalments with the prior approval of the government and according to the conditions it determines.

## 11. CONTRIBUTED SURPLUS

The contributed surplus basically represents the cancellation on June 20, 1973 of advances granted by the Québec government.

## 12. FINANCIAL EXPENSES

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| Interest on long term debt | 2 592 975 | 2 789 266 |
| Other interest | 2 138 125 | 1 834 192 |
| | 4 731 100 | 4 623 458 |

## 13. INVESTMENT INCOME

| | 1986 | 1985 |
|---|---|---|
| | $ | $ |
| Interest on term deposits | 41 142 | 140 022 |
| Interest on loans, advances and bonds | 1 470 053 | 1 738 233 |
| Share of earnings of limited partnership and satellite companies | 3 044 104 | 961 202 |
| Dividend | 278 000 | — |
| | 4 833 299 | 2 839 457 |
| Investment write-off | — | 71 055 |
| Increase in provision for contingent loss on loans and advances | — | 23 171 |
| | 4 833 299 | 2 745 231 |

## 14. TAX CREDITS

In connection with its investment program initiated in 1984, a subsidiary benefited from investment tax credits and recorded them as income up to March 31, 1986. As of that date, these credits are recorded as deferred government assistance.

The tax credits are made up of $3 933 929 in tax credits related to these investments and $268 477 in tax credits related to a fiscal operating loss.

## 15. PRIOR YEAR ADJUSTMENT OF CONSOLIDATED RETAINED EARNINGS

Elimination of the inter-company profit of $452 570 included in inventories which was not eliminated when REXFOR's accounts were consolidated on March 31, 1984. If this profit has been elimininated, the net loss for the year ended on that date would have been $5 442 222 and the retained earnings, $4 084 989.

## 16. COMMITMENTS AND CONTINGENT LIABILITIES

- Under agreements, REXFOR guaranteed the obligations contracted by a wholly-owned subsidiary to make up 49% of the operating deficits and all the working capital deficits of its satellite company. This commitment expires on March 31, 1989 or later if certain conditions are not met. According to the audited financial statements of the satellite company as at March 31, 1986, no investment of funds to make up these deficits was required as of that date. In addition, REXFOR agreed to be jointly but not severally bound to guarantee a similar commitment for 51% made by the other partner.
- A subsidiary guaranteed a commitment made by its satellite company for payment of up to 49% of the interest payable under an irrevocable letter of credit for $10 536 231. It also guaranteed similar obligations of the other partner connected with its 51% participation in this satellite company. REXFOR guaranteed the commitments contracted by its subsidiary. The interest guaranteed was $456 769 on March 31, 1986.
- Under an agreement, a subsidiary contracted to purchase upon request, as of April 1, 1990, all the shares held by its partner in a company at a price equivalent to the amount paid in March 1985, $1 000 000, plus an amount calculated at an annual rate, compounded monthly, equal to the rate requested by a financial institution plus ⅝%.
- REXFOR and a number of its subsidiaries contracted to invest $24 600 000 in the stock of new satellite companies, buy $7 500 000 worth of debentures and build and acquire various fixed assets worth $6 500 000. For its part, the Minister of Finance promised to subscribe $27 000 000 in REXFOR capital stock.
- Other guarantees amounting to $2 750 000.
- REXFOR and one of its subsidiaries are being sued jointly and severally for $2.6 million in damages for the withdrawal of its bid on the assets of a group of companies.
- REXFOR has been named as defendant in a claim made by a contractor for $1.4 million in damages for clean-up operations on the head bay of the Outardes II river.

## 17. POSSIBLE TAX ADVANTAGE

A subsidiary has $6 063 313 in unrecorded investment tax credits to be valued against its future taxes.

## 18. ACTIVITIES INVOLVING RELATED COMPANIES

During the year, REXFOR and its subsidiaries concluded transactions in the course of its normal activities with its satellite companies. These transactions between related companies involved $9 745 000 in operating revenues, $632 000 in investment income and $310 000 in other income.

## 19. COMPARATIVE FIGURES

Certain 1985 figures have been reclassified to make their presentation comparable to that used in 1986 and to give effect to the prior year adjustment referred to in Note 15.

# SUMMARY OF INVESTMENTS AND INVESTMENT INCOME
## MARCH 31, 1986

### INVESTMENTS

| SUBSIDIARIES | Participation % | 1986 $ | 1985 $ |
|---|---|---|---|
| Scierie Béarn inc. | | | |
| Common stock | 100 | 100 | 100 |
| Preferred stock | 100 | 1 000 000 | 1 000 000 |
| Loan | — | 1 060 000 | 1 060 000 |
| Proforêt inc. | | | |
| Common stock | 100 | 4 525 000 | 4 525 000 |
| Preferred stock | 100 | 7 490 000 | 7 490 000 |
| Loan | — | 12 658 549 | 11 150 549 |
| Gestion 1195 inc. | | | |
| Common stock | 100 | 500 000 | 500 000 |
| Les Produits forestiers Bellerive Ka'N'Enda inc. | | | |
| Common stock | 100 | 6 348 250 | 6 348 250 |
| Énerbois inc. | | | |
| Common stock | 100 | 500 000 | 500 000 |
| Lignarex inc. | | | |
| Subsidiary participation | 77 | — | — |
| Les Entreprises Matabois ltée | | | |
| Common stock | 100 | 717 505 | 717 505 |
| Preferred stock | 100 | 1 000 000 | 1 000 000 |
| 2168-3798 Québec inc. | | | |
| Common stock | 100 | 1 616 000 | 1 616 000 |
| Les Bois de l'Est du Québec (1985) inc. | | | |
| Debentures | — | 12 500 000 | 7 655 904 |
| **JOINT VENTURES** | | | |
| Scierie des Outardes enr. | | | |
| Capital | 60 | 16 515 323 | 16 515 323 |
| Scierie Grand Remous enr. | | | |
| Capital | 60 | 4 500 000 | 3 000 000 |
| Cumulated share of earnings (losses) of subsidiaries and joint ventures | | (20 120 578) | (17 046 105) |
| | | 50 810 149 | 46 032 526 |
| **OTHER INVESTMENTS** | | | |
| Participation in satellite companies and limited partnerships | | 44 320 523 | 31 864 937 |
| Common stock | | 5 291 938 | 6 355 203 |
| Preferred stock | | 725 000 | — |
| Mortgages | | 199 519 | 211 329 |
| Bonds | | 7 266 605 | 7 052 455 |
| Loans, advances, etc. | | 3 999 050 | 9 323 513 |
| Payments receivable next year | | (1 189 897) | (1 175 913) |
| | | 111 422 887 | 99 664 050 |
| Elimination of transactions between companies involved in consolidation | | 50 810 149 | 46 032 526 |
| | | 60 612 738 | 53 631 524 |

## INVESTMENT INCOME

| | 1986 | | | 1985 | | |
|---|---|---|---|---|---|---|
| **SUBSIDIARIES** | **Share of Earnings (Losses)** | **Interest and Dividends** | **Total** | Share of Earnings (Losses) | Interest and Dividends | Total |
| | | | | $ | $ | $ |
| Scierie Béarn inc. | | | | | | |
| Common stock | **(578 171)** | **—** | **(578 171)** | (527 540) | — | (527 540) |
| Loan | **—** | **9 957** | **9 957** | — | 312 122 | 312 122 |
| Proforêt inc. | | | | | | |
| Common stock | **1 239 568** | **—** | **1 239 568** | 2 200 809 | — | 2 200 809 |
| Loan | **—** | **235 678** | **235 678** | — | 61 546 | 61 546 |
| Gestion 1195 inc. | | | | | | |
| Common stock | **140 360** | **—** | **140 360** | 90 656 | — | 90 656 |
| Les Produits forestiers Bellerive Ka'N'Enda inc. | | | | | | |
| Common stock | **(2 294 225)** | **—** | **(2 294 225)** | (1 097 267) | — | (1 097 267) |
| Énerbois inc. | | | | | | |
| Common stock | **628 953** | **—** | **628 953** | 4 262 049 | — | 4 262 049 |
| Lignarex inc. | | | | | | |
| Participation | **26 963** | **—** | **26 963** | 114 725 | — | 114 725 |
| Loan | **—** | **—** | **—** | — | 27 997 | 27 997 |
| Les Entreprises Matabois ltée | | | | | | |
| Common stock | **(31 205)** | **—** | **(31 205)** | (583 096) | — | (583 096) |
| | **(867 757)** | **245 635** | **(622 122)** | 4 460 336 | 401 665 | 4 862 001 |
| **JOINT VENTURES** | | | | | | |
| Scierie des Outardes enr. | | | | | | |
| Capital | **(1 491 180)** | **—** | **(1 491 180)** | (1 854 284) | — | (1 854 284) |
| Loans and accrued interest | **—** | **213 053** | **213 053** | — | — | — |
| Scierie Grand Remous enr. | | | | | | |
| Capital | **(680 517)** | **—** | **(680 517)** | (945 541) | — | (945 541) |
| | **(3 039 454)** | **458 688** | **(2 580 766)** | 1 660 511 | 401 665 | 2 062 176 |
| **OTHER INVESTMENTS** | | | | | | |
| Satellite companies and limited partnerships | **3 044 104** | **909 812** | **3 953 916** | 961 202 | 713 250 | 1 674 452 |
| Bonds | **—** | **464 826** | **464 826** | — | 572 113 | 572 113 |
| Loans, advances, etc. | **—** | **288 194** | **288 194** | — | 358 644 | 358 644 |
| Interest on term deposits | **—** | **41 142** | **41 142** | — | 140 022 | 140 022 |
| | **4 650** | **2 162 662** | **2 167 312** | 2 621 713 | 2 185 [illegible] | [illegible] 807 407 |
| Elimination of transactions between companies involved in consolidation | **3 039 454** | **(373 467)** | **2 665 987** | (1 660 511) | (401 665) | 2 062 176 |
| | **3 044 104** | **1 789 195** | **4 833 299** | 961 202 | 1 784 029 | 2 745 231 |

# SUBSIDIARIES

## Énerbois inc.

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 3 912 | 3 083 |
| Current liabilities | 302 | 302 |
| Working capital | 3 610 | 2 781 |
| Investments | 4 125 | 4 625 |
| | 7 735 | 7 406 |
| Long term debt | 800 | 1 100 |
| Shareholder equity | 6 935 | 6 306 |
| | 7 735 | 7 406 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Income | — | 1 703 |
| Production costs | — | 942 |
| Gross earnings | — | 761 |
| General expenses | 140 | 210 |
| | (140) | 551 |
| Investment income | 769 | 473 |
| Profit on sale of all fixed assets | — | 3 238 |
| Net earnings | 629 | 4 262 |

## Lignarex inc.

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 5 126 | 6 385 |
| Current liabilities | 4 831 | 6 320 |
| Working capital | 295 | 65 |
| Fixed assets | 75 | 74 |
| Other assets | 30 | 50 |
| | 400 | 189 |
| Shareholder equity | 400 | 189 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | 66 553 | 64 405 |
| Cost of sales | 64 357 | 62 157 |
| Gross earnings | 2 196 | 2 248 |
| General expenses | 2 160 | 2 097 |
| Net earnings | 36 | 151 |

## Scierie Béarn inc.

**CONDENSED CONSOLIDATED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 7 040 | 7 197 |
| Current liabilities | 5 529 | 4 224 |
| Working capital | 1 511 | 2 973 |
| Investments | 1 508 | 598 |
| Fixed assets | 8 477 | 9 192 |
| | 11 496 | 12 763 |
| Long term debt | 5 484 | 6 074 |
| Deferred government assistance | 1 928 | 2 027 |
| Shareholder equity | 4 084 | 4 662 |
| | 11 496 | 12 763 |

**CONDENSED CONSOLIDATED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | 18 416 | 18 385 |
| Cost of sales | 16 898 | 16 760 |
| Gross earnings | 1 518 | 1 625 |
| General expenses | 2 182 | 2 107 |
| | (664) | (482) |
| Other income | 41 | 39 |
| Operating loss before participation | (623) | (443) |
| Participation | 45 | (84) |
| Net loss | (578) | (527) |

## Gestion 1195 inc.

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 501 | 339 |
| Current liabilities | 8 | 4 |
| Working capital | 493 | 335 |
| Fixed assets | 2 555 | 2 691 |
| Deferred expenses | — | 8 |
| | 3 048 | 3 034 |
| Long term debt | 2 186 | 2 313 |
| Shareholder equity | 862 | 721 |
| | 3 048 | 3 034 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Rental income | 757 | 774 |
| General expenses | 617 | 683 |
| Net earnings | 140 | 91 |

## Les Produits forestiers Bellerive Ka'N'Enda inc.

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 3 908 | 3 656 |
| Current liabilities | 6 165 | 3 286 |
| Working capital (deficit) | (2 257) | 370 |
| Fixed assets | 2 898 | 3 096 |
| Other assets | 299 | 59 |
| | 940 | 3 525 |
| Long term debt | 1 900 | 2 191 |
| Shareholder equity (deficit) | (960) | 1 334 |
| | 940 | 3 525 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | 7 133 | 7 792 |
| Cost of sales | 7 107 | 7 095 |
| Gross earnings | 26 | 697 |
| General expenses | 2 321 | 1 794 |
| Net loss | (2 295) | (1 097) |

## Scierie Grand Remous enr.

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 6 318 | 5 656 |
| Current liabilities | 6 040 | 7 546 |
| Working capital (deficit) | 278 | (1 890) |
| Fixed assets | 6 018 | 5 549 |
| Other assets | 302 | 542 |
| | 6 598 | 4 201 |
| Long term debt | 5 556 | 4 553 |
| Deferred government assistance | 303 | 341 |
| Capital from partners (insufficiency) | 739 | (693) |
| | 6 598 | 4 201 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | 16 261 | 14 799 |
| Cost of sales | 14 998 | 14 078 |
| Gross earnings | 1 263 | 721 |
| General expenses | 2 331 | 2 231 |
| Net loss | (1 068) | (1 510) |

## Proforêt inc.

**CONDENSED CONSOLIDATED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 10 888 | 11 362 |
| Current liabilities | 3 842 | 10 051 |
| Working capital | 7 046 | 1 311 |
| Investments | 22 144 | 21 139 |
| Fixed assets | 27 211 | 15 085 |
| Other assets | 33 | 334 |
| | 56 434 | 37 869 |
| Long term debt | 35 335 | 23 502 |
| Deferred revenue | 10 653 | 6 262 |
| Minority interests | 2 117 | 1 000 |
| Shareholder equity | 8 329 | 7 105 |
| | 56 434 | 37 869 |

**CONDENSED CONSOLIDATED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | 12 191 | 4 236 |
| Cost of sales | 12 375 | 4 005 |
| Gross earnings (gross loss) | (184) | 231 |
| General expenses | 1 818 | 867 |
| Operating loss before participation | (2 002) | (636) |
| Participation | 141 | (932) |
| Tax credits | 4 202 | — |
| Minority interests | (1 117) | — |
| Net earnings (net loss) before extraordinary items | 1 224 | (1568) |
| Extraordinary items | — | 3 784 |
| Net earnings | 1 224 | 2 216 |

## Les Entreprises Matabois ltée

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | — | — |
| Current liabilities | 126 | 126 |
| Working capital (deficit) | (126) | (126) |
| Investments | 500 | 500 |
| | 374 | 374 |
| Shareholder equity | 374 | 374 |
| | 374 | 374 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | — | 4 416 |
| Cost of sales | — | 4 356 |
| Gross earnings | — | 60 |
| General expenses | — | 619 |
| Net loss | — | (559) |

## Scierie des Outardes enr.

**CONDENSED BALANCE SHEET ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Current assets | 14 452 | 14 890 |
| Current liabilities | 13 477 | 10 773 |
| Working capital | 975 | 4 117 |
| Investments | 204 | 238 |
| Fixed assets | 14 900 | 14 471 |
| Other assets | 3 920 | 2 758 |
| | 19 999 | 21 584 |
| Long term debt | 13 898 | 12 500 |
| Deferred government assistance | 3 433 | 3 419 |
| Capital | 2 668 | 5 665 |
| | 19 999 | 21 584 |

**CONDENSED INCOME STATEMENT ($'000)**

| MARCH 31 | 1986 | 1985 |
|---|---|---|
| Net sales | 40 189 | 38 693 |
| Cost of sales | 40 468 | 37 937 |
| Gross earnings (gross loss) | (279) | 756 |
| General expenses | 2 719 | 3 497 |
| Net loss | (2 998) | (2 741) |

## ACTIVITY REVIEW
## Domaine forestier

Over the year, Domaine forestier supplied many businesses in Groupe Rexfor and in the private sector. It tried out a number of new logging methods and elaborated upon an existing forest management information system to help monitor costs. Also, in keeping with specific mandates from the government, Domaine forestier lent its help to a few firms with problems.

### SUPPLIES

**Côte-Nord**
**Hauterive Division**

To supply Scierie des Outardes enr. on the Côte-Nord, Domaine forestier logged 712 000 cubic metres of timber. It also hired the Coopérative forestière de Manicouagan-Outardes to cut an additional 60 000 cubic metres.

Domaine forestier built 10 kilometres of roads to allow access to new harvesting areas and relocation of a logging camp within the next two years.

**Hautes Laurentides**
**Mont-Laurier Division**

The Mont-Laurier division of Domaine forestier supplied Les Produits forestiers Bellerive Ka'N'Enda inc. and Scierie Grand-Remous enr. with their timber. The harvesting was done by local logging contractors working on a contract basis.

The Mont-Laurier division logged 105 000 cubic metres of hardwood for the hardwood sawmill and veneer plant of Les Produits forestiers Bellerive Ka'N'Enda inc. and purchased 9 000 cubic metres from private woodlots.

For Scierie Grand-Remous enr., 190 000 cubic metres of fir, spruce, white pine and red pine were harvested and delivered, and 8 000 cubic metres purchased locally.

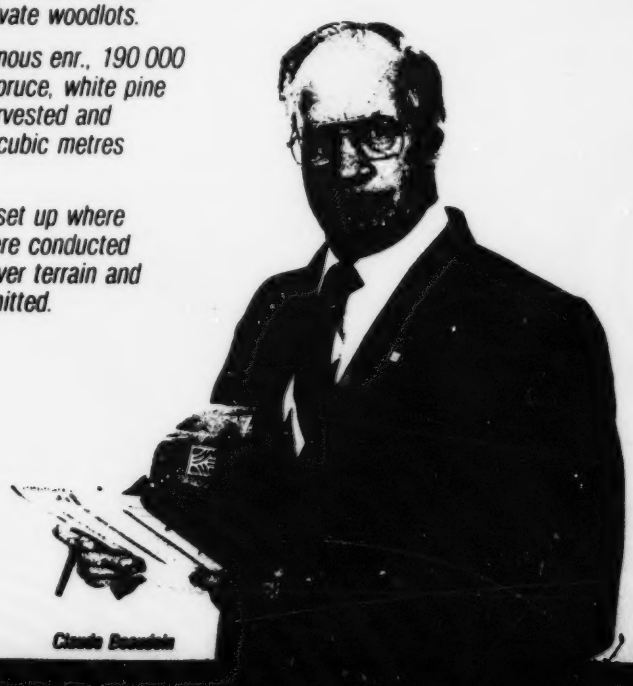
A logging camp was set up where logging operations were conducted using "fellers" wherever terrain and stand conditions permitted.

**Côte du Sud**
**Appalaches Division**

At the government's request, Rexfor and a local cooperative have been involved in logging and resource development activities in the Appalaches domanial forest since 1974. Some of the pulpwood logged is sent to F.F. Soucy inc. et Associés. The Appalaches division also sells pulpwood to Papeterie Reed Ltée and lumber to buyers named by the ministère de l'Énergie et des Ressources.

Over the last season, the 125 workers in the Appalaches division cut 175 000 cubic metres of timber using various logging methods.

In the Appalaches, Rexfor fulfills its contractual obligation to supply the F.F. Soucy inc. et Associés pulp and paper mill and is involved in intensive forest management activities — giving work to logging operation workers. This is an important role, and the government corporation hopes to maintain it.



Claude Beaudoin

***Bas Saint-Laurent — Gaspésie Matane Division***

*When the subsidiary Les Bois de l'Est du Québec (1985) inc. reopened, the Matane division closed down. It nevertheless sold the equivalent of 330 000 cubic metres to Panval inc. and sold off the pulpwood left over from the previous year to other buyers.*

## OTHER ACTIVITIES

*Domaine forestier conducted supply studies for a number of Rexfor's subsidiaries, the future pulp and paper mill in Port-Cartier and the Matane project. In addition, it tried logging 4 200 cubic metres of timber on steep slopes by means of cable yarding. In Mont-Laurier, it applied strip cutting and regrowth protection methods. In the same area, a skidder with high flotation tires was tested on wet ground.*

*Once again, Domaine forestier supplied the Biosyn plant at Saint-Just-de-Bretenières. In this way, then, it participated with Nouveler inc. in the development of a biomass energy production system.*

*The installation of a management information system (MIS) entailed major changes in work methods in the divisions. To date, the following management elements have been developed: wood scaling and verification control methods, worker and machine time payment, weekly production, analytical reports dealing with management and purchasing prices, analysis of and follow-up on vehicle costs, access to central accounting records. The MIS also includes interfaces between the wood scaling, worker payment and wood transport systems.*

## HELPING OTHERS

*Domaine forestier gave financial and technical assistance to Scierie Deroy inc. on the Côte-Nord, Scierie Lamontagne inc. close to Lac Saint-Jean and Pulp-Bo-Peck in the Mauricie area.*

***Yvon Rosa, Jean-Paul Jacques and Michel Brousseau Jean-Louis Caron and Marcel Gamache***

***Michel Côté, Richard Paradis, Huguette Tanguay and Louise Duchesneau***

## Domaine industriel

Rexfor's Domaine industriel plans the overall activities of the subsidiaries as well as their management. Represented at the meetings of the different boards of directors by its Vice-President, the Domaine industriel team has a global view of the businesses. It is therefore in a position to determine the specific orientation of each and coordinate administrative activities.

### LES PRODUITS FORESTIERS BELLERIVE KA'N'ENDA INC.

A wholly-owned Rexfor subsidiary since 1981, Les Produits forestiers Bellerive Ka'N'Enda inc. produces lumber and veneer. It mostly uses yellow birch, a hardwood species, for its veneer.

Up to June 1985, this firm manufactured door skin. The arrival of a new, lower-priced door skin on the market, however, forced Les Produits forestiers Bellerive Ka'N'Enda inc. to reorient its activities. Now, with peeled logs it produces veneer used to manufacture industrial board.

Most of its timber supplies, provided by Domaine forestier, came from the limits managed by paper mills. This business also had various problems related to the poor condition of the hardwood timber in this area, territory tenure, previous harvests and the isolation of the cutting grounds. In addition, the forest contains maple — a species which is hard to sell — and the quantity of quality yellow birch harvested for the veneer plant was little over one-half the allocation.

In 1985, Les Produits forestiers Bellerive Ka'N'Enda inc. altered its sawmill to adapt it to constantly smaller logs. The addition of a bull-edger and rearrangement of equipment led to a 40 percent increase in productivity. The lumber was mostly sold in Montréal and Toronto. Its price has remained stable since 1981.

Over the next few years, Les Produits forestiers Bellerive Ka'N'Enda inc. will be able to sell shavings, sawdust and chips to the MDF (medium density fiberboard) plant Panfibre inc. This should substantially improve its financial status. What is more, Les Produits forestiers Bellerive Ka'N'Enda inc. will be drawing up a recovery plan over the next year which will be designed to maximize spin-off from the MDF plant.

### PROFORÊT INC.

The Compagnie Proforêt inc. is a holding company with 49 percent of the stock in Panval inc. and 50 percent in Les Bois de l'Est du Québec (1985) inc. It handles the management of the latter in keeping with an agreement signed between the two groups of shareholders.

Roger Morasse

Carol Turgeon and Bernard Charette

***Les Bois de l'Est du Québec (1985) inc.***

*The reorganization of the sawmill industry begun in 1984 in the north part of Gaspésie and in Matane-Matapédia continued through this year. The plan first called for the alteration of six sawmills and their integration into a resaw and planing centre at Matane. This project was priced at about $23 million. Les Bois de l'Est du Québec (1985) inc. stayed within the budget and the deadlines.*

*This year, the Grande-Vallée, Lac-au-Saumon and Matabois sawmills were turned into cant mills and the construction work on the Matane centre was completed. It is now equipped for resawing, planing and kiln-drying. Also, a thermal energy plant was added to the complex. The alterations at the Marsoui plant still have to be completed and those at the Mont-Logan plant are yet to begin. Construction work started on the Matane resaw and planing centre in July 1985. This called for production adjustments throughout the complex.*

*Les Bois de l'Est du Québec (1985) inc. is now responsible for logging operations. This year, it cut approximately 375 000 cubic metres of sawlogs and pulpwood. It sold close to 76 000 cubic metres of lumber through Lignarex inc. and 45 000 anhydrous tonnes of chips, part of which were sold on the overseas market.*

*The success of the reorganization of the sawmill industry in this area is due to this business' hard work recruiting, integrating and training personnel. It was rewarded with reliable, competent workers who can be counted on at all times.*

***Panval inc.***

*Panval inc. operates a particle board and furniture components plant at Sayabec in the Matapédia valley. This business belongs to the German group Uniboard Canada Inc. (51 percent) and Rexfor subsidiary Proforêt inc. (49 percent).*

*In 1985-1986, the Panval inc. plant produced 192 000 cubic metres of particle board, laminated particle board and furniture components. This necessitated the purchase of 125 000 anhydrous tonnes of chips, sawdust and shavings from sawmills in the vicinity.*

*Panval inc. employed close to 325 individuals who it paid $12 million in salaries and fringe benefits.*

*Over the next year, Panval inc. plans to increase its capacity to produce low-pressure melamine board. This project, estimated at $6 million, includes the expansion of the plant and purchase of a third laminating press. In addition to creating jobs in the region, this move will help the company meet the constantly growing demand for low-pressure melamine board.*

## *SCIERIE BÉARN INC.*

*Since 1975, Scierie Béarn inc. has been wholly owned by Rexfor. It was the government which asked Rexfor to take charge of this sawmill in financial difficulties. In September 1985, the mill celebrated its 10th anniversary with its employees.*

*Guy J. Gaudet, Réjean Fafard and Dominique Leclerc*

*Lorrent Gaudet, Yvan Rochette and Fernando Lavallée*

Over the past year, Scierie Béarn inc. produced 13 million board-feet of pine lumber and 38 million board-feet of spruce, and sold to the Tembec inc. chemical pulp plant 53 000 anhydrous tonnes of chips. Sales were over $17 million.

This year, Scierie Béarn inc. harvested 230 000 cubic metres of public forest timber and bought about 25 000 cubic metres from private woodlot owners. It had 160 people working in its plant and 110 in logging operations, and paid them $6.1 million in salaries and fringe benefits. Its workers are qualified, competent and relatively stable. Under its profit-sharing plan, implemented right from the start, employees are entitled to 10 percent of the profits.

In order to remain profitable in a difficult market context, Scierie Béarn inc. has drawn up a plan to modernize its mill. This project will cost $4 to $5 million, and involves adapting the sawmill to smaller logs and thereby increasing its productivity.

**Cèdre Fabre inc.**

Scierie Béarn inc. owns 51 percent of the Cèdre Fabre inc. plant. This plant in Fabre, Témiscamingue produces squares of cedar shingles and bags of cedar moss used for horticulture. It has the second-highest cedar shingle production capacity in Québec.

During the year, Cèdre Fabre inc. produced 25 000 squares of cedar shingles and 20 000 bags of cedar moss. It paid its employees $575 000 in salaries and fringe benefits. Sales were $1.3 million.

## SCIERIE DES OUTARDES ENR.

Located on the Côte-Nord, at Pointe-aux-Outardes, Scierie des Outardes enr. is a general partnership. Rexfor owns 60 percent and the Compagnie de Papier QNS ltée owns 40 percent. The mill began its operations in 1978 but had to close down in 1981 because of the economic situation at that time.

In 1985-1986 Scierie des Outardes enr. produced 245 860 cubic metres of fir, spruce and jack pine lumber, selling it through Lignarex inc. on northeastern U.S. and overseas markets. It sold 182 000 anhydrous tonnes of chips to QNS. It also exported close to 12 000 tonnes of these chips overseas. It had the third-highest annual production in Québec. It employed 235 individuals in its mill and paid them $7.6 million in salaries and fringe benefits.

Rexfor's Domaine forestier provides the supplies for this sawmill which, in addition to its mill staff, employs about 400 logging oepration workers. This year, 712 000 cubic metres of timber was harvested from the public forest. In addition, 60 000 cubic metres were supplied by the Coopérative forestière Manicouagan-Outardes.

To make its mill more profitable, Scierie des Outardes enr. embarked upon a three-year $5.8 million modernization program in December 1984. This program includes the purchase of a planer and a lumber kiln and the construction of logging roads and a camp. The employees are helping finance the project: they have invested $500 000 in the form of a term loan through the Fonds de solidarité des travailleurs du Québec (FTQ). An additional $750 000 was granted under the Pilot Community Job Creation Program (PECEC).

## SCIERIE GRAND-REMOUS ENR.

Created in 1981, Scierie Grand-Remous enr. is a general partnership. Rexfor owns 60 percent and CIP inc. owns 40 percent. This sawmill is located at Grand-Remous on the banks of the Gatineau river 260 kilometres from Montréal.

Florent Boivin and Réal Beauregard

Scierie Grand-Remous enr. produces fir, jack pine, white pine, red pine and spruce lumber. During the year, it put out 36 million board-feet of fir and spruce and 11 million board-feet of white pine which it sold through Lignarex inc. This included rough-green, dressed-green, rough KD and dressed KD lumber in keeping with market demand. It had about 125 workers in its mill.

A share of its good-size logs were supplied by CIP inc. in exchange for chips. Domaine forestier provided the mill with the remainder of its supplies — wood harvested from the public forest. It also supervised the purchase of wood from private woodlot owners.

In 1982, when the lumber market collapsed, the partners in Scierie Grand-Remous enr. elaborated a recovery plan for this sawmill. This plan was designed to increase the value of its products as well as the mill's productivity, and cut down on losses arising from wood processing. So far, two lumber kilns, a planer and a lumber sorting table have been installed. In 1986, a new debarker was installed to speed up the log flow. Also, the possibility of improving the lumber (fir, pine, spruce, jack pine) processing line is being looked into.

## LIGNAREX INC.

Lignarex inc. is a Rexfor subsidiary which markets forest products. It is owned in majority by the Rexfor subsidiaries for which it is the exclusive sales agent. Incorporated in 1982, Lignarex inc. enables producers to effectively penetrate the market.

In 1985-1986, Lignarex had sales of $67 million and sold the following products:

- 500 000 cubic metres of softwood lumber,
- 23 million board-feet of white pine and red pine,
- 12 million board-feet of hardwood lumber,
- 4 million square feet of hardwood plywood,
- 25 million square feet of hardwood veneer,
- 39 000 squares of cedar shingles,
- 21 million laths,
- 18 000 anhydrous tonnes of chips.

It sold these products on the Canadian, U.S. and European markets.

### Marketing

In Canada, the number of housing starts increased by 21 percent over the previous year. This pushed prices up.

The price of 2 x 4's of various lengths, for instance, shipped to Toronto, was 5 percent higher than the average for 1984.

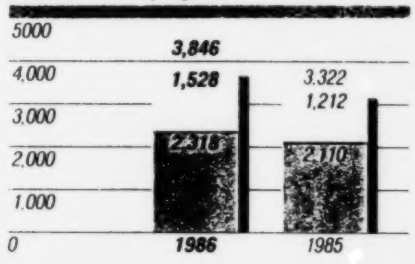
In the U.S., despite the drop of about 2 percent in the prime rate to below 10 percent, the number of housing starts decreased by 2 percent — to a mere 1.7 million units in 1985. The prices in U.S. currency decreased slightly. For example, 2 x 4 KD studs, shipped to Boston, cost about 3 percent less than the previous year. Changes in the rate of exchange, however, made it possible for Canadian producers to get better prices for their wood on the U.S. market.

The overseas market was of little interest up to September 1985 when the depreciation of the Canadian dollar made the price of wood more attractive on that market. Producers nevertheless preferred the North American market which offered a better net mill price. Lignarex inc. was actively present on overseas markets, mainly in France, England, Italy and Sweden. Shipments amounted to approximately 33 000 cubic metres of lumber and 18 000 anhydrous tonnes of chips.

Roger Morasse, Clermont Levasseur and Claude Livernoche

# Administration and Finance

**Number of Employees**




## HUMAN RESOURCES

*In 1985-1986, over 2 300 individuals worked for Groupe Rexfor in its subsidiaries. When affiliated companies are included, this figure climbed to almost 4 000.*

*Groupe Rexfor's personnel, scattered throughout Québec, are the key to its success. These women and men in the forests, plants and offices, in performing their daily tasks, make a direct contribution to the realization of Rexfor's objectives.*

## LABOUR RELATIONS

*Over the year, Rexfor's subsidiaries renewed nine of their twenty-two collective agreements. These agreements dealt with the working conditions of approximately 1 200 union members.*

## TRAINING PROGRAM

*With the approval of the subsidiaries, Rexfor's personnel department set up an ongoing management training program. This program is basically designed to better equip supervisory business staff for the management of human resources and administrative systems, developing their personnel management skills.*

## OCCUPATIONAL HEALTH AND SAFETY

*All of the businesses in Groupe Rexfor have accident prevention programs. These programs are studied and altered on a regular basis in order to eliminate on-the-job accidents. Among other things, special programs have been created for the employees of certain businesses.*

*Jacques Thiboutot, Denis Turner and Éric Girard*

*Chlise Bélanger, Daniel Kirouac and Pierre Gagnon*

## MANAGEMENT INFORMATION SYSTEMS

In 1981-1982, Rexfor embarked upon the path of computer technology. It began by developing an accounting and finance system, then a sales and inventory system and went on with Domaine forestier to create systems for scaling logs and paying logging operation workers.

The introduction of microcomputers made it possible for the management information systems department to meet specific needs with regard to human resources and management of documents. This new office technology also opened the door to budget simulation and industrial production programs, dealing for example with wood flow, log slashing and processing.

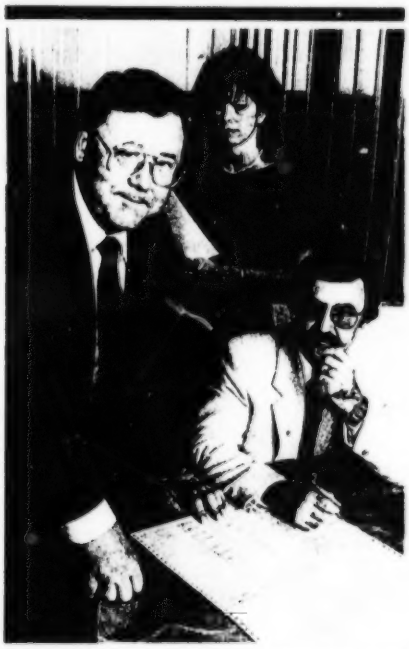
At the moment, the management information systems department, with its 15 employees, is in the process of establishing an info-centre which will give users easier access to the data bank. This team works on the maintenance of existing systems and the constant development of new ones at the same time. The consolidated operations budget for 1985-1986 was approximately $1.4 million.

## FINANCE, ACCOUNTING AND CONTROL

Groupe Rexfor has an accounting service which is decentralized as far as both operations and administration are concerned. The accounting procedure is standardized, however. Each subsidiary has a financial controler and a team of individuals whose main tasks are to keep accounting records up to date, produce the reports required by management and see that Rexfor's general policies are followed. The accounting and control team at the head office can, using the information from the subsidiaries, produce monthly, quarterly and annual financial statement reports.

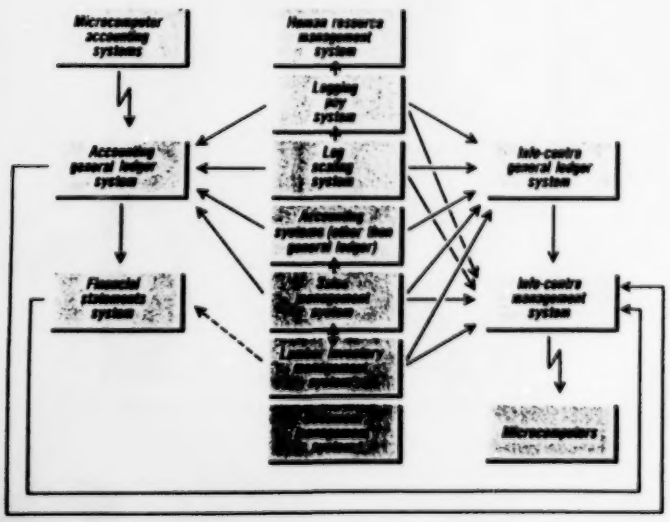
The Rexfor control system has the great advantage of being able to periodically compare the financial results obtained with the objectives set at the beginning of the year when the budgets are planned out. This makes it possible to quickly pinpoint any significant deviations, analyze them and then provide management with the information needed so that a decision can be made.

The financing of the businesses is a group undertaking in which all departments participate. Coordination is handled by the head office. The finance department also analyzes special projects and acts as a financial advisor for other departments.



Charles Chamard, Serge Melançon and Chantale Drolet

## Management Information Systems



*It is the responsibility of the service des Communications to inform the public, others in the forestry sector, and industry of the priorities of Groupe Rexfor. It is also its job to reinforce the sense of belonging felt by all employees.*

## PRESS RELATIONS

*This year, the service des Communications gave top priority to the maintenance and development of close contacts with the national and regional press: contact with regional associations of journalists, press releases, regular meetings, press conferences, etc.*

## PUBLIC RELATIONS

*The service des Communications participated in countless public relations activities. It organized an official ceremony for the inauguration of the subsidiary Les Bois de l'Est du Québec (1985) inc. in Matane, Grande-Vallée and Lac-au-Saumon. It also prepared a special celebration for Scierie des Outardes in honour of employee involvement in the sawmill expansion plan and another one to mark the tenth anniversary of the sawmill Scierie Béarn inc.*

**Danielle Dussault and Diane Côté**

## INTERNAL COMMUNICATIONS THE REXINFOR NEWSLETTER

*Every two months, the service des Communications puts out a newsletter, entitled Rexinfor, for distribution to all Groupe Rexfor employees. Many of the pieces are written by correspondents in the plants. This newsletter is designed both to inform and to develop a feeling of belonging to the Rexfor team.*

## PRESS CLIPPINGS

*Every day, the service des Communications provides those head office employees who want them with national and regional press clippings. In addition, it sends weekly clippings to subsidiaries for distribution among employees.*

## MANAGEMENT OF DOCUMENTS

*The Act respecting Access to documents held by public bodies and the Protection of personal information along with the Archives Act oblige Rexfor to set up a document classification system. Accordingly, all the head office documents were identified and coded this year. In addition, it was decided how long they should be kept. The system is now computerized and this makes it easier for us to abide by these statutes.*

## * BOARD OF DIRECTORS

**Michel Duchesneau**
*Chairman of the Board*
*President and Chief Executive Officer of Rexfor*

**Jean-Louis Verrette**
*Vice-Chairman of the Board*
*Professor, Civil Engineering Department, Laval University*

**Hugues Belzile**
*Director*
*Director, La Terre de Chez-Nous*

**Paul-A. Bienvenu**
*Director*
*President of Howard-Bienvenu inc.*

**Jean-Louis De Carufel**
*Director*

**Gaston Malette**
*Director*
*President of Malette Waferboard*

**Marie-Paule Allaire ****
*Director*
*Program Manager for Special Projects, Canadian International Development Agency*

**Pierre M. Vallée**
*Director*
*President of Thorne, Stevenson and Kellogg*

**Maître Michel Verret**
*Secretary*
*Director, Services juridiques, Rexfor*

** as of March 31, 1986*

*** up to July 1, 1985*

## MANAGEMENT

**Michel Duchesneau**
*President And Chief Executive Officer*

**Jean-Louis Caron**
*Vice-President, Domaine forestier*

**Charles Chamard**
*Vice-President, Administration et finances*

**Maurice Moore**
*Vice-President, Pâtes et papiers*

**Jean-Marie Pouliot**
*Vice-President, Développement*

**Roger Morasse**
*Vice-President, Domaine industriel*

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*REXFOR*
*1195, rue de Lavigerie*
*Sainte-Foy (Québec)*
*G1V 4N3*
*Tel. No: (418) 659-4530*

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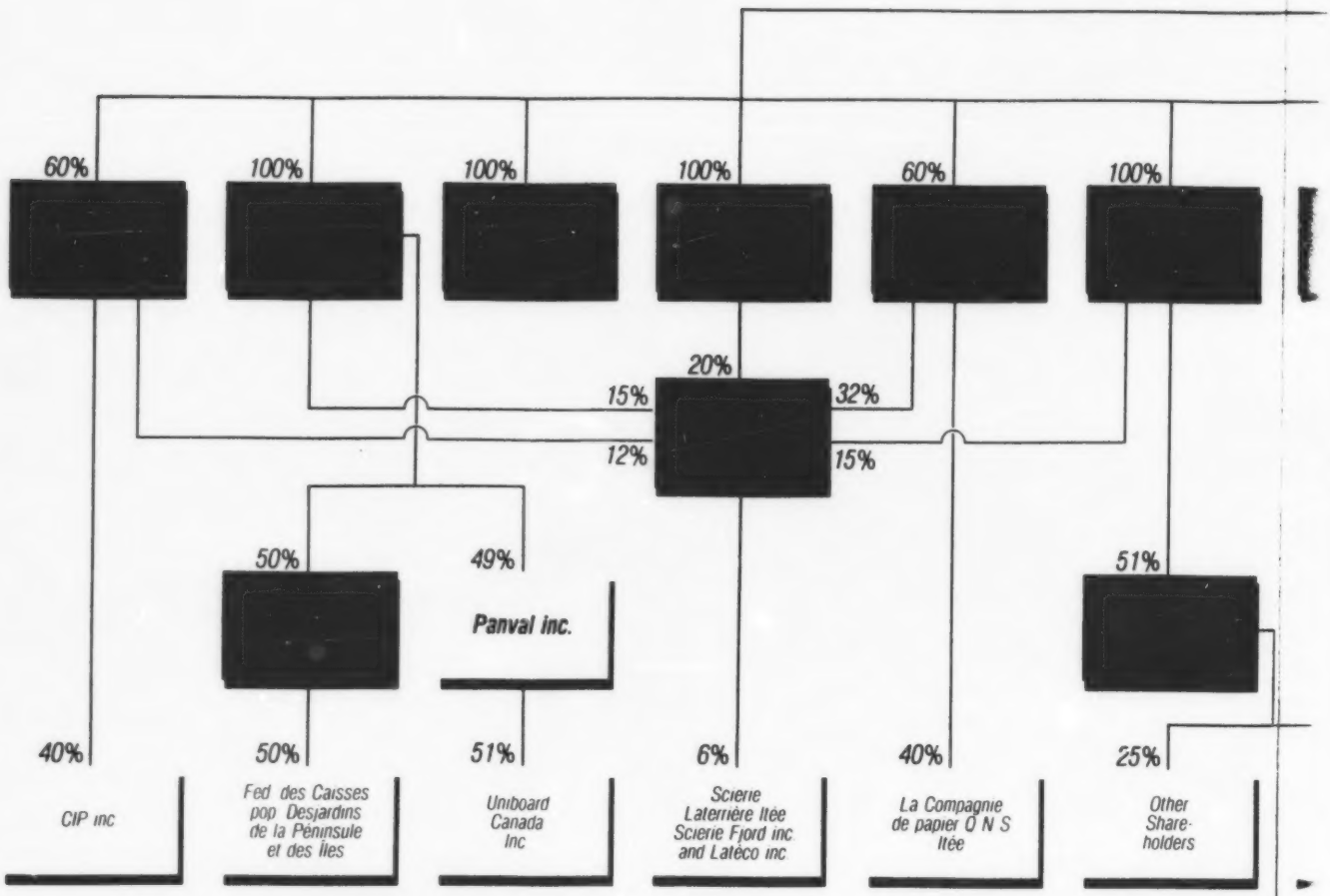


*N.B. Participation rates are rounded out*

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***Scierie Grand-Remous enr.***
*Case postale 99*
*Grand-Remous (Québec)*
*J0W 1E0*
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*General Manager:*
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*and Head of Operations:*
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*General Manager:*
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*and Head of Operations:*
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*and General Manager:*
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*Béarn (Québec) J0Z 3G0*
*Tel.: (819) 726-3551*
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*and Head of Operations:*
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***Cèdre Fabre inc.***
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*Béarn (Québec) J0Z 3G0*
*Tel.: (819) 726-3551*
*General Manager:*
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***Lignarex inc.***
*1195, rue de Lavigerie*
*Sainte-Foy (Québec)*
*G1V 4N3*
*Tel.: (418) 651-5115*
*President and General Manager:*
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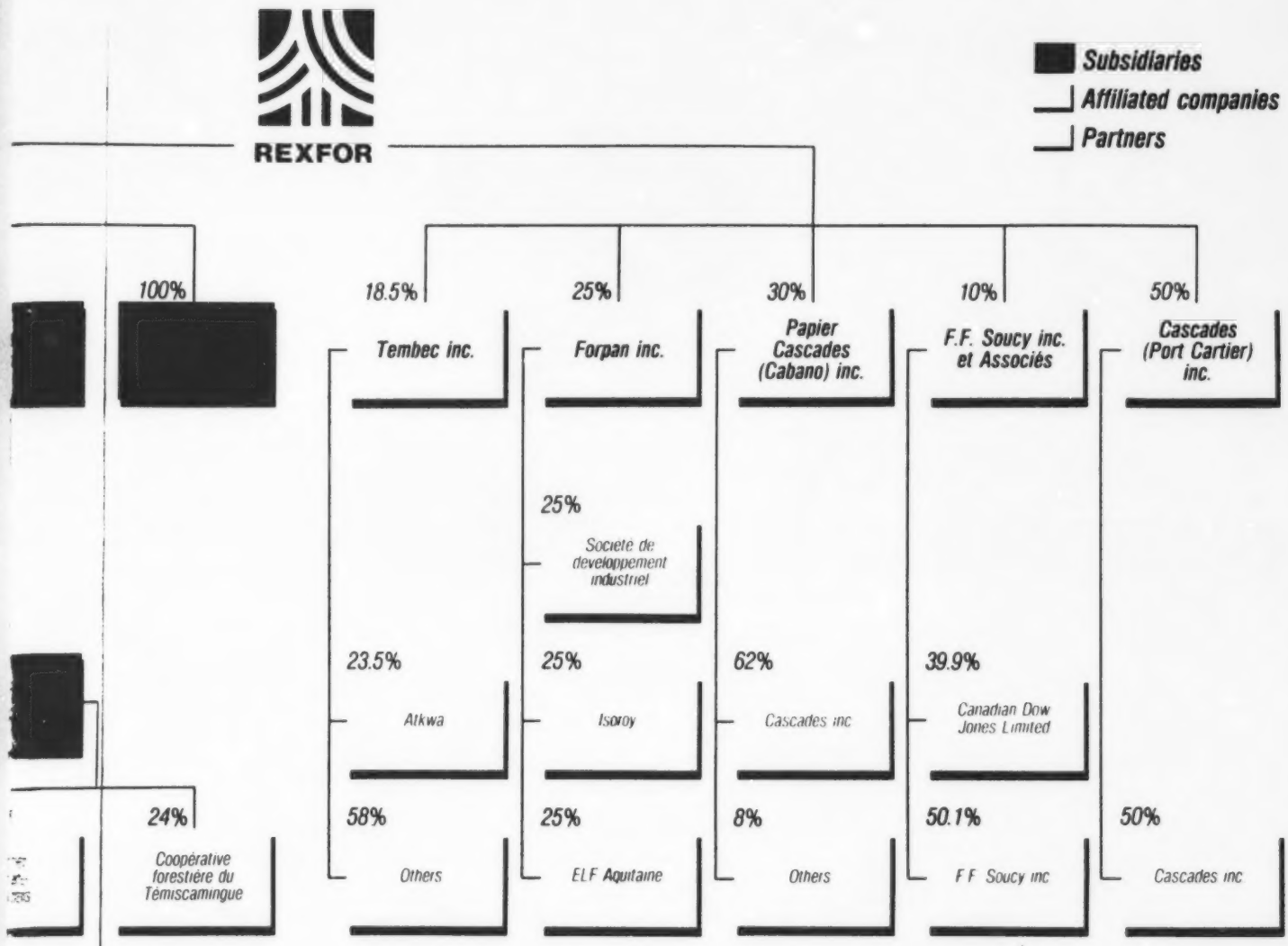
***Énerbois inc.***
*1195, rue de Lavig*
*Sainte-Foy (Québec*
*G1V 4N3*
*Tel.: (418) 659-45*
*Chairman of the B*
*MICHEL DUCHES*

***Gestion 1195 inc***
*1195, rue de Lavi*
*Sainte-Foy (Québe*
*G1V 4N3*
*Tel.: (418) 659-4*
*Chairman of the E*
*MICHEL DUCHES*




## AFFILIATED COMPANIES

**...tais inc.**
...95, rue de Lavigerie
...te-Foy (Québec)
...-4N3
...(418) 659-4530
...man of the Board:
...DUCHESNEAU

**...1195 inc.**
...95, rue de Lavigerie
...te-Foy (Québec)
...-4N3
...(418) 659-4530
...man of the Board:
...DUCHESNEAU

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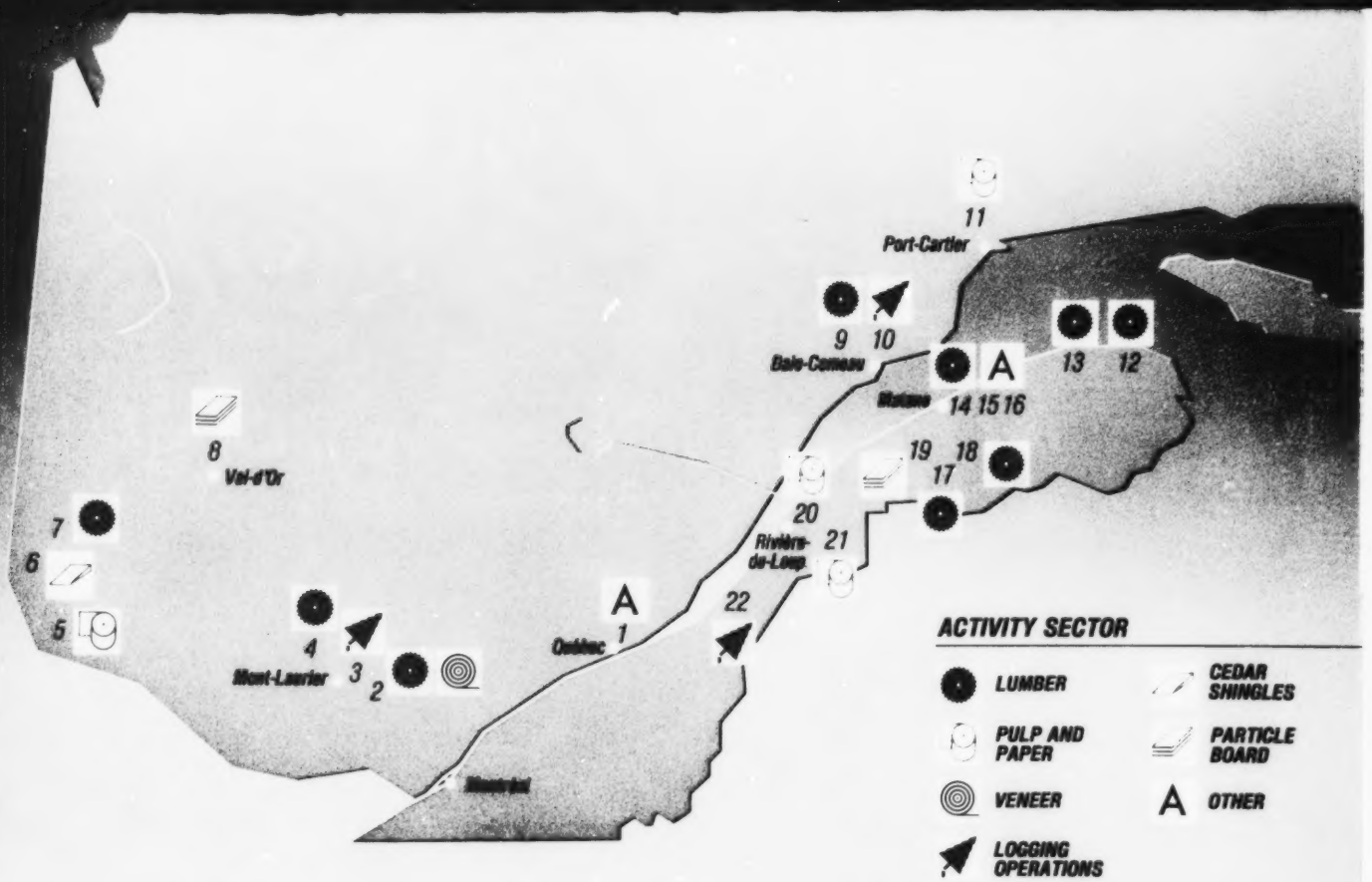
1195, rue de Lavigerie
Sainte-Foy (Québec)
G1V 4N3
Tel.: (418) 659-5240
President
and Chief Executive Officer:
RICHARD BRUNET

**Tembec inc.**
800, boul. Dorchester Ouest
Montréal (Québec) H3B 1X9
Tel.: (514) 871-0137
President
and Chief Executive Officer:
FRANK A. DOTTORI

**Papier Cascades (Cabano) inc.**
Route Transcanadienne
Cabano (Québec) G0L 1E0
Tel.: (418) 854-2803
General Manager:
MARTIN PELLETIER

**F.F. Soucy inc. et Associés**
191, rue Delage
Rivière-du-Loup (Québec)
G5R 3Z1
Tel.: (418) 862-6941
Senior Vice-President
of Manufacturing:
GILLES R. MARQUIS

**Cascades Port-Cartier inc.**
Case postale 430
Port-Cartier (Québec)
G5B 2G9
Tel.: (418) 766-5906
General Manager:
MICHEL FORTIN




| LOCATION | BUSINESS | ACTIVITY SECTOR |
|---|---|---|
| 1. Sainte-Foy | **REXFOR** | Head office |
| | **Lignarex inc.** | Marketing |
| | **Gestion 1195 inc.** | Building management |
| | **Énerbois inc.** | Investment management |
| 2. Mont-Laurier | **Les Produits forestiers Bellerive Ka'N'Enda inc.** | Lumber, veneer |
| 3. Mont-Laurier | **REXFOR** Mont-Laurier division | Logging operations |
| 4. Grand-Remous | **Scierie Grand-Remous enr.** | Lumber |
| 5. Témiscaming | **Tembec inc.** | Pulp and paper |
| 6. Fabre | **Cèdre Fabre inc.** | Cedar shingles |
| 7. Béarn | **Scierie Béarn inc.** | Lumber |
| 8. Val d'Or | **Forpan Lac.** | Particle board |
| 9. Baie-Comeau | **Scierie des Outardes enr.** | Lumber |
| 10. Baie-Comeau | **REXFOR** Baie-Comeau division | Logging operations |
| 11. Port-Cartier | **Cascades (Port-Cartier) Inc.** | Pulp and paper |
| 12. Grande-Vallée | **Les Bois de l'Est du Québec (1985) Inc.** Chic-Chocs division | Lumber |
| 13. Marsoui | **Les Bois de l'Est du Québec (1985) Inc.** Marsoui division | Lumber |
| 14. Matane | **Les Bois de l'Est du Québec (1985) Inc.** Matabois division | Lumber |
| 15. Matane | **Les Bois de l'Est du Québec (1985) Inc.** Resaw and planing centre | Resawing and planing |
| 16. Matane | **Domaine forestier REXFOR** | Supplies |
| 17. Saint-Léon-le-Grand | **Les Bois de l'Est du Québec (1985) Inc.** Le Grand division | Lumber |
| 18. Lac-au-Saumon | **Les Bois de l'Est du Québec (1985) Inc.** Lac-au-Saumon division | Lumber |
| 19. Sayabec | **Panval Inc.** | Particle board |
| 20. Rivière-du-Loup | **F.F. Soucy Inc. et Associés** | Newsprint |
| 21. Cabano | **Papier Cascades (Cabano) Inc.** | Corrugated medium |
| 22. Saint-Jean-Port-Joli | **REXFOR** Appalaches division | Logging operations |